Geographic Adjustment Factors Under Medicare: Current Law and Policy

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Today’s Topics

- Hospital Inpatient Prospective Payment System Wage Index
- Physician Fee Schedule Geographic Adjustment Factors
Hospital Wage Index

- Statutory Authority: Section 1886(d)(3)(E) of the Act
- Requirements:
  - Adjust proportion of hospital costs for area difference in hospital wage levels
  - Update adjustment based on a survey by the Secretary of wage and wage-related costs
  - Adjusted for occupational mix based on a new survey at least every 3 years
Labor Share

- MMA – Labor share = 62 percent unless payment is higher with national labor share
  - In effect: If wage index > 1, labor share=national. If wage index <= 1 labor share=62 percent
- Labor share is currently 68.8 percent and is rebased from time to time (every 4 years)
Wage Index

- Adjusts labor-related share to reflect local labor market area wages compared to national average
- Average hourly wage in an MSA (or rural area of the state) divided by the national average hourly wage
- Data submitted annually for wage index through worksheet S-3 of the cost report. 4 year lag between cost report and wage index year. FY 2007 wage data used to set the FY 2011 wage index
Occupational Mix

- Purpose: Control for the effect of hospital employment choices on wage index
  - Adjust for mix of RNs, LPNs, nursing aides, medical assistants etc... on average hourly wage
- Data collected every 3 years on occupational mix of hospital employees
Payment Formula

- Payment = Product of:
  - National Standardized Amount
    - Labor-Related Share (68.8% or 62%) adjusted by area wage index plus
    - Non-Labor Related Share
  - DRG Relative Weight
  - IME Percentage
  - DSH percentage
- Plus Outlier & New Technology
Special Provisions:

- Geographic Reclassification
- Section 508 of the MMA
- Rural/Imputed Rural Floor
- Lugar/Deemed New England Counties
- Rural Referral Centers, Medicare Dependent Hospitals, Sole Community Hospitals
- Outmigration
- Urban to Rural Redesignation
- Frontier States
- 1109 Qualifying Hospitals
Geographic Reclassification

- Hospitals believe they compete for labor with a nearby labor market area and want that wage index
- Individual Reclassifications
  - Proximity - 15 miles (urban) or 35 miles (rural)
  - Wage data – 108%/84% of own/requested area average hourly wage (urban) or 106%/82% of own/requested area (rural) until FY 2009
  - Changed to 108%/86% (urban), 106%/84% (rural) for FY 2010 and 108%/88% (urban), 106%/86% (rural) for FY 2011 and later in FY 2009 IPPS rule
  - Affordable Care Act changed back to the pre-FY 2010 criteria effective for FY 2011
Geographic Reclassification

- Group Reclassifications
  - All hospitals in a county
  - Adjacent to requested area
  - Same combined statistical area
  - Requested area must have a higher wage index
  - Must be at least 85% of the requested area
  - Changed to match individual criteria: 86% for FY 2010, 88% for FY 2011
  - Changed back by the Affordable Care Act
Special Provisions

- Section 508 Hospitals – MMA provision to allow hospitals that did not meet proximity criteria to be reclassified under a special one-time only process.

- Rural/Imputed Rural Floor – No urban wage index can be below the rural area of its State.
  - All Urban States: NJ and RI. Imputed floor= average of ratio of lowest to highest wage index in each state multiplied by highest wage index in each state.
  - Budget neutrality:
    - Affordable Care Act: 100% national in FY 2011 and later.
Special Provisions

- Lugar/Deemed New England Urban Counties: Hospitals located in rural counties near urban counties given urban wage index and treated as urban for payment
- Special Hospital Types:
  - Rural Referral Centers: Can reclassify to nearest area and do not have to meet 106/108 percent test
  - Medicare Dependent Hospitals (MDH), Sole Community Hospitals (SCH) get special IPPS rates
  - CAHs – Small, rural hospitals paid 101% of costs
- Outmigration: wage index adjustment for hospitals in counties where hospital employees commute to adjacent counties with a higher wage index
- Urban to rural redesignation to receive MDH, SCH or Rural Referral Center Status and treated as rural for payment
Affordable Care Act Provisions

- Frontier States: Wage index floor of 1.0 for hospitals in states where 50 percent of counties have a population density of less than 6 people per square mile.
- 1109 Qualifying Hospitals: $400 million for FY 2011 and FY 2012 for hospitals in lowest quartile of counties based on age, sex and race adjusted spending per capita under Parts A and B of Medicare.
Wage Index Reform

- Secretary required to consider the MedPAC recommendation and make “a proposal or proposals” to revise the wage index adjustment for fiscal year 2009.
  - Changed reclassification criteria and to statewide budget neutrality for rural/imputed rural floor.
  - Reversed by Affordable Care Act.
Affordable Care Act Requirement

- Report to Congress by 12/31/2011 that considers:
  - 2007 MedPAC Report
  - Use BLS or other data and methodologies
  - Minimizes adjustments within and between areas
  - Minimize volatility and budget neutral
  - Consider impact including effect on quality
  - Provide for a transition
Physician Fee Schedule
Geographic Adjustment Factors

- Statutory Authority: Section 1848(e) of the Act
- Requires Secretary to create an index for each fee schedule area that reflects:
  - relative cost of practice expenses (other than malpractice) to the national average (PE GPCI)
  - relative cost of malpractice to the national average (MP GPCI)
  - ¼ of the difference in the relative value of physician work to the national average (Work GPCI)
Payment Formula

- Payment = CF \times (Work \times (GPCI_{w}) + (PE \times GPCI_{pe}) + (MP \times GPCI_{mp})
  - CF=\$ Conversion Factor
  - Work=Physician Work RVU
  - PE = Practice Expense RVU
  - MP= Malpractice Expense RVU

- Geographic Adjustment Factor (GAF) reflects a weighted average sum of the work, PE and MP GPCIs for a given locality
Updates and Data

- Updated every 3 years for new data. New GPCIs phased in over 2 years.
- Current Data Sources:
  - Work GPCI – ¼ of the difference in earnings for 6 professional occupational groups from the 2000 Census.
  - PE GPCI –
    - 2000 Census for employee wages.
    - 50th percentile of residential apartment rental data from HUD.
    - No adjustment for medical equipment and supplies.
  - Malpractice GPCI – insurer rate filings of premium data and surcharge for mandatory patient compensation funds.
- Comments From Iowa and Other Areas: Source data for GPCIs flawed and costs do not vary as much as being adjusted.
GPCI Weights and the Amount of Adjustment

- Physician Work – 52.46% but GPCI only reflect ¼ of variation
- Practice Expense – 43.67% but only 30.86% of total weight is adjusted
- Malpractice – 3.87% weight fully adjusted.
- Total Percent of Fee Adjusted for Area Variation in Costs: <48%
Localities

- Current locality structure developed in 1997. Consists of 89 total localities:
  - 37 higher cost areas within States
  - 16 “rest of area” within those same States
  - 36 Statewide or territory wide Areas (Puerto Rico and Virgin Islands designated as territory wide localities)

- Locality Issues:
  - California, Louisiana, Texas, Georgia: Counties once considered part of rural “rest of state” now more closely resemble costs of urban areas
  - CMS contracted with Acumen to study alternative locality structures
**Special Adjustments and Affordable Care Act**

- Floor on Work GPCI of 1.0 from 1/1/2004 through 12/31/2009
- Alaska – All GPCIs = 1.67 for 2004 to 2006 and floor on work GPCI of 1.5 since 2007 (permanent)
- Affordable Care Act:
  - Employee compensation and rent portion of PE GPCI reflects ½ of relative cost difference for 2010 and 2011 with hold harmless
  - Floor of 1.0 on PE GPCI in Frontier States
  - Extends work GPCI floor through 12/31/2010
Affordable Care Act

- Analysis of practice expense geographic adjustments to evaluate:
  - Feasibility of using survey data from medical organizations for office expense including staff and rent
  - Extent to which office expense occurs in a national or local market
  - Weight assigned to each practice expense category

- By 1/1/2012, Secretary makes appropriate adjustments to PE GPCI resulting from analysis and shall consider:
  - Basing office rent and its weight on office expense that vary among areas
  - Using the American Community Survey or other reliable data for professional and office staff wage adjustments
2011 Proposed Rule

- Proposed 6th GPCI Update
  - Updated data from current sources used for rent component of PE GPCI and MP GPCI
  - Proposed to rebase and revise MEI and match GPCI weights to revised MEI
  - Work GPCI: 52.466 to 48.266%
  - PE GPCI: 43.669 to 47.439%
    - Employee compensation: 18.654 to 19.153%
    - Office rent: 12.209 to 8.410%
    - Equipment and supplies: 12.806 to 19.876%
  - MP GPCI: 3.865 to 4.295%
Questions